

**AUDITED FINANCIAL STATEMENTS  
REQUIRED SUPPLEMENTAL INFORMATION  
OTHER FINANCIAL INFORMATION  
AND SUPPLEMENTAL REPORT**

**GOGEBIC COUNTY ROAD COMMISSION  
BESSEMER, MICHIGAN**

**December 31, 2006**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name GOGEBIC COUNTY ROAD COMMISSION	County GOGEBIC
Fiscal Year End DECEMBER 31, 2006	Opinion Date JULY 17, 2007	Date Audit Report Submitted to State JULY 24, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

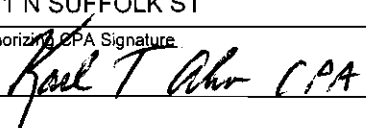
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	NOT APPLICABLE	
Other (Describe)	<input type="checkbox"/>	NOT APPLICABLE	
Certified Public Accountant (Firm Name) JOKI, MAKELA & POLLACK, PLLC		Telephone Number 906-932-4430	
Street Address 301 N SUFFOLK ST		City IRONWOOD	State MI
Zip 49938			
Authorizing CPA Signature 		Printed Name KARL T AHONEN	License Number 1101025488

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**JOKI, MAKELA & POLLACK, P.L.L.C.**

**CERTIFIED PUBLIC ACCOUNTANTS  
301 N. SUFFOLK STREET  
IRONWOOD, MICHIGAN 49938-2027**

**T. J. MAKELA, C.P.A.  
W. J. JOKI, C.P.A.  
A. R. POLLACK, C.P.A., C.S.E.P.  
MEMBERS**

**TELEPHONE  
906-932-4430  
FAX  
906-932-0677  
EMAIL  
jmp@ironwoodcpa.com**

**INDEPENDENT AUDITOR'S REPORT**

Members of the Board of Commissioners  
Gogebic County Road Commission  
Bessemer, Michigan

We have audited the accompanying financial statements of the governmental activities of Gogebic County Road Commission, a component unit of Gogebic County, Michigan, as of and for the year ended December 31, 2006, which collectively comprise the Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities of Gogebic County Road Commission as of December 31, 2006, and the changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2007, on our consideration of Gogebic County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison schedule on pages 5 through 11 and page 33 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We

have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed in the table of contents as Other Financial Information is presented for purposes of additional analysis and is not a required part of the basic financial statements of Gogebic County Road Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

*Joki, Mahala & Pollack, PLLC*

Certified Public Accountants

Ironwood, Michigan  
July 17, 2007

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### GOGEBIC COUNTY ROAD COMMISSION

Year ended December 31, 2006

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#### **Management's Discussion and Analysis**

This section of the Gogebic County Road Commission's (Commission) annual financial report presents our discussion and analysis of the Commission's financial performance during the year ended December 31, 2006. It is to be read in conjunction with the Commission's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments* and is intended to provide the financial results for the fiscal year ending December 31, 2006.

#### **Government-wide Financial Statements**

The Government-wide financial statements appear first in the financial report. These financial statements include the statement of net assets and the statement of activities. They report information about the Commission as a whole. The statements are prepared using the accrual basis of accounting which is the accounting used by most private sector businesses. The statement of net assets includes all of the Commission's assets and liabilities. All current year revenues and expenses are reported in the statement of activities. The two statements report the governmental activities of the Commission that include all services performed by the Commission. These activities are funded by Michigan Transportation Fund monies, local charges for services and federal and state grants.

The statement of net assets shows the Commission's assets and liabilities. The corresponding balance between the assets and liabilities equals the net assets or deficit of the Commission. A deficit occurs when there are more liabilities than there are assets to pay those liabilities. This statement measures the financial strength of the Commission; the greater the net asset figure, the healthier the financial position of the Commission generally is. It helps management determine if the Commission will be able to fund current obligations and whether they have resources available for future use.

The statement of activities shows the current year change in net assets on a revenue less expenditure basis. It generally shows the operating results for a given year of the Commission. Any excess of revenues over expenditures results in a surplus for the year that in turn increases the net assets (or reduces a deficit) available to fund future needs of the Commission.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Fund Financial Statements

The Commission's fund financial statements show detail of funds that are determined to be significant, called major funds. The Commission has only one fund. That fund is a special revenue fund, which is the major governmental fund. The Commission has no nonmajor funds.

Governmental funds are accounted for by the modified accrual method of accounting (flow of current financial resources measurement focus). This method records revenues when all applicable eligibility requirements are met and resources are available to finance expenditures of the fiscal period. Expenditures are recorded when the related liability is incurred. The governmental fund financial statements show the detail of operations for a given year according to this method of accounting. This is similar to how the Commission reported their finances in the past. The individual fund statements help management determine what financial resources are available on a short-term basis to fund operations.

Since the government-wide financial statements and the fund financial statements use different methods of accounting to report the Commission's financial condition, a reconciliation is included in the financial statements showing the differences between the two types of statements.

### Government-wide Financial Statements – Condensed Financial Information

#### Statement of Net Assets

The following is a December 31, 2006 and 2005, condensed statement of net assets with a detailed analysis of the statement below.

	<u>Governmental Activities</u>	
	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
ASSETS		
Current Assets:		
Cash	\$ 186	\$ 182
Investments	682,447	742,850
Accounts receivable	826,544	821,868
Inventories	522,703	547,982
Other current assets	<u>24,084</u>	<u>47,076</u>
Total Current Assets	\$ 2,055,964	\$ 2,159,958
Noncurrent Assets -		
Capital assets, net of allowances for depreciation of:		
2006 - \$5,603,117; 2005 - \$5,437,415	<u>7,995,164</u>	<u>7,217,283</u>
Total Assets	<u>\$ 10,051,128</u>	<u>\$ 9,377,241</u>

# MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

## Government-wide Financial Statements – Condensed Financial Information (Continued)

### Statement of Net Assets (Continued)

		<u>Governmental Activities</u>	
		<u>December 31,</u>	
		<u>2006</u>	<u>2005</u>
<b>LIABILITIES</b>			
Accounts payable	\$	87,654	\$ 15,037
Other current liabilities		102,597	130,182
Advances		229,107	225,175
Deferred revenue		386,233	410,257
Current portion of long-term liabilities		<u>30,921</u>	
Total Current Liabilities	\$	836,512	\$ 780,651
Long-term liabilities		<u>280,061</u>	<u>320,344</u>
Total Liabilities	\$	<u>1,116,573</u>	\$ <u>1,100,995</u>
<b>NET ASSETS</b>			
Investment in capital assets	\$	7,995,164	\$ 7,217,283
Unrestricted		<u>939,391</u>	<u>1,058,963</u>
Total Net Assets	\$	<u>8,934,555</u>	\$ <u>8,276,246</u>

The Commission's net assets are \$8,934,555 at December 31, 2006. Capital assets are \$7,995,164. This figure is derived by taking the original costs of the Commission's assets and subtracting allowances for depreciation to date. The Commission had no debt related to fixed assets at December 31, 2006 or 2005.

The unrestricted net assets total \$939,391 as of December 31, 2006. This is the net accumulated results of past years' operations.

### Statement of Activities

The results of operations for the Commission as a whole are reported in the statement of activities. This statement reports the changes in net assets for the years ended December 31, 2006 and 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

**Statement of Activities (Continued)**

		<u>Governmental Activities</u>	
		<u>Year ended December 31,</u>	
		<u>2006</u>	<u>2005</u>
Revenues -			
Program Revenues:			
Charges for services	\$	879,763	\$ 1,000,264
Operating grants and entitlements		4,136,581	3,607,376
Capital grants and contributions		<u>1,429,598</u>	<u>2,272,086</u>
	\$	<u>6,445,942</u>	<u>\$ 6,879,726</u>
General Revenues:			
Interest	\$	26,820	\$ 24,768
Gain on asset disposals		<u>61,234</u>	<u>42,644</u>
	\$	<u>88,054</u>	<u>\$ 67,412</u>
	Total Revenues	\$ 6,533,996	\$ 6,947,138
Functions/Program Expenses -			
Public works		<u>5,875,687</u>	<u>5,467,798</u>
	Increase in Net Assets	<u>\$ 658,309</u>	<u>\$ 1,479,340</u>

The Commission had an overall increase in net assets of \$658,309 for the year ended December 31, 2006.

The Commission's revenues totaled \$6,533,996 and \$6,947,138 for December 31, 2006 and 2005, respectively. Of this amount, \$541,692 or 8% were from federal grants. The amount was \$629,060 or 9% for December 31, 2005. The federal grants were passed-through the State of Michigan and included Surface Transportation Funds, Federal "D" Funds and Hazard Elimination Safety Funds. All of these revenues are included in the capital grants revenue category and were used to enhance the County road system.

State grants totaled \$2,791,399, or 43% of total revenues for December 31, 2006 and \$2,789,771, or 40% for December 31, 2005. The major source of state grants are monies from the Michigan Transportation Fund. These are gas tax revenues that are returned to counties for road maintenance. Other state grants received include snow removal funds, forest road funds and state "D" funds. These revenues are split between operating grants and capital grants depending on what the monies are earmarked for.

The other major portion of revenues is rental income. The Commission charges rents based on approved State of Michigan, Department of Transportation rates to all of the projects they incur expenses on during the year. The rents are spread across all of the projects and the funding sources for the projects are charged for those costs. Rent revenues totaled \$1,471,109 or 23% and \$1,614,650 or 23% for December 31, 2006 and 2005, respectively. The revenues are categorized as operating grants and capital grants.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Statement of Activities (Continued)

The Commission's total cost to fund all governmental activities was \$5,875,687. All of these costs were for road and bridge construction or reconstruction or maintenance on the road system in Gogebic County. The amount totaled \$5,467,798 for December 31, 2005. This amount fluctuates from year to year based on project funding levels and the scope of work performed on various projects.

### Fund Financial Statements

The governmental fund financial statements report the Commission's finances similar to how they have been reported prior to implementation of GASB Statement No. 34. The Commission reports a fund balance of \$1,250,373 and \$1,379,307 at December 31, 2006 and 2005, respectively. This was a decrease of \$128,934 from last year. Total expenditures reported were \$4,540,388 and \$5,078,226 for December 31, 2006 and 2005, respectively. Salaries and wages paid to employees totaled \$1,570,640 or 35% of total expenditures and related fringes were \$1,066,270 or 23% of the total for December 31, 2006. This is compared to amounts of \$1,659,943 or 33% and \$1,120,782 or 22% for December 31, 2005. Capital outlay purchases totaled \$234,350 and included a new quad-axle truck and a used grader.

### Budgetary Comparison Schedules - Variance Analysis

The significant budget variances of the Commission for year-end December 31, 2006, included the following:

<u>Original Budget to Final Budget</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Variance</u>
REVENUES			
State funds	\$ 2,791,250	\$ 2,842,435	\$ 51,185
Contributions - local units	255,600	107,287	(148,313)
Charges for services	922,000	879,016	(42,984)
Gain on asset disposal	0	67,759	67,759
EXPENDITURES			
Primary roads	1,387,500	1,449,628	(62,128)
Local roads	1,246,451	1,141,957	104,494
State trunkline maintenance	850,000	803,401	46,599
Equipment expense - net	(450,000)	(378,113)	(71,887)
Capital outlay - net	55,000	(87,593)	142,593

The State funds revenues were amended as more forest road funds were used as local matching on various road projects. Local unit contributions were less than original budget as less work was performed on township roads than originally anticipated. Charges for services were less as expenses charged to State trunkline maintenance and non-maintenance were down compared to the previous year. The gain on asset disposal was due to the sale of the blacktop plant equipment and an insurance recovery from a grader totaled during the year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Budgetary Comparison Schedules - Variance Analysis (Continued)

The primary roads expenditure budget variance was \$62,128, local roads had a variance of \$104,494 and state trunkline maintenance had a variance of \$46,599. When the original budget was adopted for December 31, 2006, the Commission had a tentative plan of which projects would be completed in 2006 and the amount of maintenance on local roads and state highways. This is done five to six months prior to the construction season. As the year progresses, changes are made to the project and maintenance schedules based on priority and safety issues. As the location and scope of work changes, so do the expenditure categories.

The equipment expense -- net variance of \$71,887 was caused by equipment rental use being less than originally anticipated and costs to maintain equipment increased.

The capital outlay -- net variance of \$142,593 was due to a reduction in the amount of equipment purchases estimated during the year.

The initial budget for the December 31, 2006 year-end was adopted by the Commission on December 28, 2005. A first amendment was made on October 16, 2006, with the final amendment made on December 20, 2006.

#### Final Budget to Actual

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES - State aid	\$ 2,842,435	\$ 2,791,399	\$ (51,036)
EXPENDITURES			
Primary roads	\$ 1,449,628	\$ 1,799,520	\$ (349,892)
Local roads	1,141,957	1,474,912	(332,955)
Services provided - private driveway plowing	61,625	84,239	(22,614)
Equipment expense - net	(378,113)	257,748	(635,861)
Administrative expense - net	134,073	263,121	(129,048)

The Commission overspent in various expenditure categories during the year and these items are reported as budget violations in our supplemental report. The major reason is that the Commission budgets a line item for "distributive expenses" each year but for the financial statements, these expenses are allocated to each of the expenditure categories above. This amount was \$1,220,412 for December 31, 2006.

### **Capital Assets**

At December 31, 2006 the Commission had \$7,995,164 invested in capital assets. This amount increased during the past fiscal year by \$777,881 consisting of additions totaling \$1,429,598 and depreciation charges of \$651,717. The additions included a quad-axle truck and accessories and a used grader totaling \$234,350 and infrastructure additions of \$1,195,248. Assets disposed of during the year had a historical cost of \$486,015 that was equal to the accumulated depreciation on the assets. The infrastructure capitalized includes various road construction and reconstruction completed in 2006 that meets the State of Michigan Department of Transportation guidelines for capitalization. The Commission was given the option of reporting infrastructure on a prospective basis and chose to do so beginning with projects completed during 2003.

### **Debt**

The Commission had \$280,061 of long-term liabilities, net of the current portion of \$30,921 at December 31, 2006. The entire amount is for accrued vacation and sick benefits payable to employees. The liability for vacation and sick benefits will not be relieved until the benefits are paid out to employees.

### **Future Considerations**

With the State of Michigan, federal government and the local county, city and township governments facing financial difficulties and spending issues, the funding for construction and maintenance projects are in the hands of the state, federal and local governments. The level of work the Road Commission performs is based on this revenue.

### **Contacting the Commission**

If you have any questions about this report or need additional information, contact the Manager at the Gogebic County Road Commission, Courthouse Annex, Bessemer, MI 49911.

BASIC  
FINANCIAL  
STATEMENTS

STATEMENT OF NET ASSETS  
GOGEBIC COUNTY ROAD COMMISSION  
December 31, 2006

ASSETS	
CURRENT ASSETS	
Cash	\$ 186
Investments	682,447
Accounts receivable:	
State of Michigan	819,486
Due from other governmental units	7,058
Inventories:	
Equipment parts and materials	274,891
Road materials	247,812
Prepaid insurance	<u>24,084</u>
TOTAL CURRENT ASSETS	\$ 2,055,964
NON CURRENT ASSETS	
Capital assets	\$ 13,598,281
Less allowances for depreciation	<u>(5,603,117)</u>
TOTAL NON CURRENT ASSETS	\$ <u>7,995,164</u>
TOTAL ASSETS	\$ <u>10,051,128</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	\$ 87,654
Salaries, wages and related benefits	98,259
Due to State of Michigan	4,338
Advances:	
Private driveway plowing	56,019
State trunkline equipment purchase	113,875
State trunkline maintenance	59,213
Deferred revenue	386,233
Current portion of long-term liabilities	<u>30,921</u>
TOTAL CURRENT LIABILITIES	\$ 836,512
LONG-TERM LIABILITIES, net of current portion -	
Vacation and sick benefits	<u>280,061</u>
TOTAL LIABILITIES	\$ <u>1,116,573</u>
NET ASSETS	
Investment in capital assets	\$ 7,995,164
Unrestricted	<u>939,391</u>
TOTAL NET ASSETS	\$ <u>8,934,555</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF ACTIVITIES  
GOGEBIC COUNTY ROAD COMMISSION  
Year ended December 31, 2006

GOVERNMENTAL FUNCTIONS -

Program expenses -

Public works:

Primary road maintenance	\$ 996,981
Local road maintenance	1,082,202
Services provided	864,689
Equipment expense	2,026,353
Net administrative expense	263,121
Net compensated absences	(9,362)
Other	269
Depreciation expense	<u>651,717</u>

TOTAL PROGRAM EXPENSES \$ 5,875,970

Program revenues:

Charges for services	\$ 879,762
Operating grants and contributions:	
State Aid	2,008,284
Contributions from local units	5,471
Rents	1,471,109
Other	652,001
Capital grants and contributions:	
Federal Aid	541,692
State Aid	783,115
Contributions from local units	<u>104,791</u>

TOTAL PROGRAM REVENUES \$ 6,446,225

NET PROGRAM REVENUES \$ 570,255

GENERAL REVENUES:

Interest and dividends	\$ 26,820
Gain on asset disposals	<u>61,234</u>

TOTAL GENERAL REVENUES \$ 88,054

CHANGE IN NET ASSETS FOR THE YEAR \$ 658,309

NET ASSETS - January 1, 2006 8,276,246

NET ASSETS - December 31, 2006 \$ 8,934,555

The accompanying notes are an integral part of the financial statements.

BALANCE SHEET - GOVERNMENTAL FUND

GOGEBIC COUNTY ROAD COMMISSION

December 31, 2006

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ASSETS	
Cash	\$ 186
Investments	682,447
Accounts receivable:	
State of Michigan	819,486
Due from other governmental units	7,058
Inventories:	
Equipment parts and materials	274,891
Road materials	247,812
Prepaid insurance	<u>24,084</u>
	<u>\$ 2,055,964</u>
LIABILITIES AND EQUITY	
Accounts payable	\$ 87,654
Salaries, wages and related benefits	98,259
Due to State of Michigan	4,338
Advances:	
Private driveway plowing	56,019
State trunkline equipment purchase	113,875
State trunkline maintenance	59,213
Deferred revenue	<u>386,233</u>
	TOTAL LIABILITIES \$ 805,591
Unreserved fund equity	<u>1,250,373</u>
	<u>\$ 2,055,964</u>

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
WITH THE STATEMENT OF NET ASSETS  
GOGEBIC COUNTY ROAD COMMISSION  
December 31, 2006

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Total fund equity of the governmental fund	\$ 1,250,373
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Amounts reported for the governmental activities in the statement of net assets are different because:

    Additions:

        Capital assets used in governmental activities are not financial resources and  
        therefore are not reported as assets in governmental funds.

The cost of the capital assets is	\$ 13,598,281	
Allowance for depreciation is	<u>(5,603,117)</u>	7,995,164

    Reductions:

        Long-term liabilities are not due and payable in the current period and  
        therefore are not reported as liabilities in governmental funds.

Accrued vacation and sick benefits	<u>(310,982)</u>
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Total net assets of governmental activities	<u>\$ 8,934,555</u>
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The accompanying notes are an integral part of the  
financial statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - GOVERNMENTAL FUND  
GOGEBIC COUNTY ROAD COMMISSION  
Year ended December 31, 2006

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Total revenues	\$4,411,454
Total expenditures	<u>4,540,388</u>
Deficiency of revenues over expenditures	\$ (128,934)
Fund balance at January 1, 2006	<u>1,379,307</u>
FUND BALANCE AT DECEMBER 31, 2006	<u>\$ 1,250,373</u>

The accompanying notes are an integral part of the  
financial statements.

## STATEMENT OF REVENUES - GOVERNMENTAL FUND - BUDGET AND ACTUAL

## GOGEBIC COUNTY ROAD COMMISSION

Year ended December 31, 2006

	Budget	Actual	Variance Favorable (Unfavorable)
Federal Aid:			
Surface Transportation funds		\$ 322,668	
Federal "D" funds		148,064	
Hazard Elimination Safety Funds		<u>70,960</u>	
	\$ 548,651	\$ 541,692	\$ (6,959)
State Aid:			
Michigan Transportation Fund:			
Engineering		\$ 10,000	
Primary road		1,499,923	
Local road		660,068	
Primary urban road		35,578	
Local urban road		6,966	
Snow removal		283,445	
Economic Development Fund:			
State "D" funds		69,097	
Forest Road funds		<u>226,322</u>	
	2,842,435	\$ 2,791,399	(51,036)
County raised and other revenues:			
Contributions from:			
Cities		\$ 5,471	
Townships		<u>104,791</u>	
	107,287	\$ 110,262	2,975
Charges for services:			
State trunkline maintenance		\$ 727,514	
State trunkline nonmaintenance		52,901	
Private driveway plowing		84,239	
Other		<u>15,108</u>	
	879,016	\$ 879,762	746
Interest and dividends earned	25,684	26,820	1,136
Other		285	285
Gain on asset disposals	<u>67,759</u>	<u>61,234</u>	<u>(6,525)</u>
TOTAL REVENUES	<u>\$ 4,470,832</u>	<u>\$ 4,411,454</u>	<u>\$ (59,378)</u>

The accompanying notes are an integral part of the financial statements.

## STATEMENT OF EXPENDITURES - GOVERNMENTAL FUND - BUDGET AND ACTUAL

## GOGEBIC COUNTY ROAD COMMISSION

Year ended December 31, 2006

	Budget	Actual	Variance Favorable (Unfavorable)
Primary road:			
Preservation - structural improvements		\$ 802,539	
Maintenance		974,271	
Primary road structures:			
Preservation - structural improvements		937	
Maintenance		<u>21,773</u>	
	\$ 1,449,628	\$ 1,799,520	\$ (349,892)
Local road:			
Preservation - structural improvements		\$ 392,709	
Maintenance		1,046,098	
Local road structures:			
Preservation - structural improvements		344	
Maintenance		<u>35,761</u>	
	1,141,957	\$ 1,474,912	(332,955)
Services provided:			
State trunkline maintenance		\$ 727,548	
State trunkline nonmaintenance		<u>52,902</u>	
	\$ 803,401	\$ 780,450	\$ 22,951
Private driveway plowing	<u>61,625</u>	<u>84,239</u>	<u>(22,614)</u>
	\$ 865,026	\$ 864,689	\$ 337
Equipment expense - net:			
Direct		\$ 859,673	
Indirect		629,835	
Operating		239,349	
Less equipment rental		<u>(1,471,109)</u>	
	(378,113)	\$ 257,748	(635,861)
Administrative expenses - net:			
Administrative expense		\$ 347,135	
Less:			
Handling charges		(5,856)	
Overhead - state trunkline maintenance		(77,479)	
Purchase discounts		(540)	
Other		<u>(139)</u>	
	134,073	\$ 263,121	(129,048)

STATEMENT OF EXPENDITURES - GOVERNMENTAL FUND -  
BUDGET AND ACTUAL (CONTINUED)

	Budget	Actual	Variance Favorable (Unfavorable)
Distributive expenses	1,220,412		1,220,412
Other		269	(269)
Capital outlay - net:			
Capital outlay		\$ 234,350	
Less depreciation		<u>(354,221)</u>	
	<u>(87,593)</u>	<u>\$ (119,871)</u>	<u>32,278</u>
TOTAL EXPENDITURES	<u>\$ 4,345,390</u>	<u>\$ 4,540,388</u>	<u>\$ (194,998)</u>

The accompanying notes are an integral part of the  
financial statements.

RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE WITH THE STATEMENT OF ACTIVITIES

GOGEBIC COUNTY ROAD COMMISSION

December 31, 2006

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Total net change in fund balance - governmental fund	\$ (128,934)
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or construct capital assets are reported as expenditures in governmental funds. For governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlay exceeds depreciation expense in the period.

Depreciation expense	\$ (651,717)	
Capital outlays	<u>1,429,598</u>	777,881

In the statement of activities, operating expenses for compensated absences are measured by amounts earned during the year while the governmental funds report expenditures as amounts are paid. This year the amount paid for compensated absences was more than the amount earned by \$9,362.

9,362

Change in net assets of governmental activities	<u>\$ 658,309</u>
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The accompanying notes are an integral part of the financial statements.

NOTES TO  
FINANCIAL  
STATEMENTS

NOTES TO FINANCIAL STATEMENTS  
GOGEBIC COUNTY ROAD COMMISSION

December 31, 2006

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NOTE A - REPORTING ENTITY

Gogebic County Road Commission (the Commission) was established pursuant to the County Road Law (MCL 224.1) and is governed by a three member Board of County Road Commissioners appointed by the County Board of Commissioners. The Commission may not issue debt without the County's approval, and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39, "The Financial Reporting Entity" for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present only Gogebic County Road Commission, a discretely presented component unit of Gogebic County, Michigan.

The Road Commission General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission General Operating Fund.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Gogebic County Road Commission conform to accounting principles generally accepted in the United States as applicable to governmental units. The following is a summary of the significant policies:

Basis of Presentation

Government-Wide Financial Statements

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report information on all of the activities of the Commission. The activities of the Commission are considered to be governmental activities.

The government-wide financial statements report all financial and capital assets, short and long-term liabilities, revenues, expenses, gains and losses using the economic resource measurement focus and the accrual basis of accounting. All revenue is recorded when earned and expenses are recorded when a liability is incurred.

The Statement of Activities reports net cost information based on the Commission's functions. Direct expenses are listed by function with program revenues for each function offset against those expenses. The Commission has one function, public works, and its program revenues are generated from charges for services, operating grants and contributions and capital grants.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Fund-based Financial Statements

Separate financial statements are provided on the basis of funds, which are considered separate fiscal and accounting entities. The Commission has only one fund. That fund is a special revenue fund which is the major governmental fund.

Governmental funds are accounted for using the modified accrual basis of accounting and the flow of expendable financial resources (measurement focus). Under the modified accrual basis of accounting, revenue is recognized when the revenue is subject to accrual, eligibility requirements are met and the revenues are available to finance expenditures of the fiscal period. Revenue is considered available when the revenue has been collected in the current period or soon enough after the end of the period to use to pay current fund liabilities. The Commission considers revenues to be available if collected within 60 days of the end of the period. Expenditure-based grants are recognized as revenue when revenue is available, the qualifying expenditures have been incurred and all other grant requirements have been met. Expenditures, if measurable, are recorded when they have been used or are expected to use current expendable financial resources.

#### Investments

Investments are stated for financial-statement purposes at their fair market value.

#### Accounts Receivable

The Road Commission grants credit to customers for various types of services performed. Included among its customers are federal, state and local units of government. The direct charge-off method is used for recognizing uncollectible accounts. All accounts deemed to be uncollectible as of the end of the year are charged off as an expenditure. The effects of using this method approximate those of the allowance method.

#### Inventories

Inventories are priced at cost as determined by the moving average method, except for stockpiled road materials, which are priced at the 2006 average unit production cost. Inventory items are charged to road construction, equipment maintenance, repairs and operations as they are used.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Capital Assets and Depreciation

Capital assets include land, buildings, equipment and infrastructure and are reported in the government-wide financial statements. Capital assets are defined by the Commission as assets with an acquisition cost of more than \$1,000 with an estimated useful life of at least four years. Assets costing less than \$1,000 are capitalized if they have an equipment rental rate as determined by the State of Michigan. Assets meeting this criteria are recorded at historical cost or estimated historical costs if the amount is not known. Any donated capital assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks of infrastructure assets acquired, constructed or substantially rehabilitated to be capitalized and depreciated. The Commission has capitalized the current year infrastructure as required by GASB 34 and has reported the infrastructure in the Statement of Net Assets. The Commission had the option to report infrastructure prospectively and has chosen to do so beginning with projects completed in 2003.

The costs of capital assets are charged to expense using an annual allocation of depreciation expense. The expense is recorded in the Government-wide Statement of Activities and included as a direct expense of an identifiable function if the assets sole purpose can be identified as being for that function.

The capital assets are depreciated using the sum-of-the-years-digits method for road equipment and straight-line method for all other fixed assets over the useful lives as established by the Uniform Accounting Procedures Manual for Michigan County Road Commissions. It is the Commission's policy to take no depreciation in the year of completion for infrastructure assets. The lives are summarized as follows:

Buildings	30 – 50 years
Road equipment	5 – 8 years
Shop equipment	10 years
Engineering equipment	4 – 10 years
Office equipment	4 – 10 years
Infrastructure – Roads	8 – 30 years
Infrastructure - Bridges	12 – 50 years

#### Investment in Capital Assets, Net of Related Debt

The portion of net assets of the Commission that consists of capital assets, net of allowances for depreciation and reduced by any long-term liabilities attributable to the acquisition of those assets is reported as investment in capital assets, net of related debt. There were no long-term liabilities associated with these assets at December 31, 2006.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Unrestricted Net Assets

Net assets not meeting the criteria above are considered unrestricted.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the Board of County Road Commissioners to approve a budget for the County Road Fund. Prior to January 1, the Road Commission's chief administrative officer prepares and submits a proposed operating budget to the Board of County Road Commissioners for their review and consideration. The Board of County Road Commissioners conducts a public budget hearing and subsequently adopts the operating budget. The budget is adopted on a functional level. The Board of County Road Commissioners has authorized the chief administrative officer to amend the operating budget, when necessary, by transferring up to 20% from one line item to another. The operating budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended, by the Board of County Road Commissioners. The budget lapses on December 31.

### NOTE C - CASH AND INVESTMENTS

Cash is deposited with the Gogebic County Treasurer, the depository agent for cash balances of the various funds of Gogebic County. The County Treasurer combines cash balances for investment purposes. A detailed accounting of cash balances allocable to the various funds is maintained.

Deposits and investments were made in accordance with State of Michigan statutes and under authorization of the County Board of Commissioners. State of Michigan statutes authorize investments in: direct obligations of the United States or an agency of the United States; banks which are members of the Federal Deposit Insurance Corporation; commercial paper rated at the time of purchase within the three highest classifications established by no fewer than two standard rating services; United States government or agency obligation repurchase agreements; bankers' acceptances of United States banks; certain mutual funds and certain common stocks.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE C - CASH AND INVESTMENTS (CONTINUED)

The Road Commission uses an imprest system with zero balances for its accounts payable and payroll checking accounts. The portion of these two accounts covered by FDIC insurance cannot be determined because the accounts are among several Gogebic County accounts in the same local bank. The investment balance reflected on the balance sheet of the General Operating Fund is represented by deposits included in Gogebic County's common municipal investment mutual fund accounts with all transfers to the accounts payable and payroll accounts approved by the Gogebic County's Board of Commissioners. Required information related to the investments may be found in Note F – Cash and Investment Information of the County's separately issued Audited Financial Statements.

### NOTE D - LONG-TERM LIABILITIES

Long-term liabilities of the Road Commission is summarized as follows:

	Balance at January 1, <u>2006</u>	<u>Net Change</u>	Balance at December 31, <u>2006</u>
Long-Term Liabilities:			
Vacation benefits	\$ 92,715	\$ (1,187)	\$ 91,528
Sick leave benefits	<u>227,629</u>	<u>(8,175)</u>	<u>219,454</u>
TOTALS	<u>\$ 320,344</u>	<u>\$ (9,362)</u>	<u>\$ 310,982</u>

\$30,921 of the balance is considered a current liability for the Statement of Net Assets.

#### Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service and pay rates of the employee. Benefits earned by each employee in the current calendar year are to be paid to the employee in subsequent calendar years.

#### Sick Leave Benefit Policies

Road Commission employment policies provide that each full-time employee shall earn one day of sick leave credit for each month of service. Sick leave credits may be accumulated to a maximum of 120 days. Payment of 60% of accumulated benefits will be made when a union employee takes a normal retirement; payment of 50% will be made when a union employee dies or is discharged or laid off; and payment of 25% will be made to a union employee who voluntarily separates from employment with the Road Commission.

Employees not covered by the union collective bargaining agreement negotiate payment of accumulated sick leave benefits on a case-by-case basis with the Board of Road Commissioners.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE E – CAPITAL ASSETS

Following is a summary of the changes in the capital assets and allowances for depreciation for the year ended December 31, 2006:

	Balance at January 1, <u>2006</u>	<u>Additions</u>	<u>Deductions</u>	Balance at December 31, <u>2006</u>
Land, buildings, equipment and infrastructure:				
Land and improvements	\$ 1,617			\$ 1,617
Buildings	793,534			793,534
Road equipment	5,129,194	\$ 234,350	\$ 483,946	4,879,598
Shop equipment	130,649			130,649
Yard and storage equipment	185,852		501	185,351
Office equipment	99,159		1,568	97,591
Depletable assets	68,757			68,757
Infrastructure	<u>6,245,936</u>	<u>1,195,248</u>		<u>7,441,184</u>
 TOTAL LAND, BUILDINGS EQUIPMENT AND INFRASTRUCTURE	 \$ 12,654,698	 \$ 1,429,598	 \$ 486,015	 \$ 13,598,281
Allowances for depreciation:				
Buildings	\$ 415,637	\$ 16,242		\$ 431,879
Road equipment	4,356,882	319,046	\$ 483,946	4,191,982
Shop equipment	118,228	2,166		120,394
Yard and storage equipment	169,990	10,855	501	180,344
Office equipment	65,454	5,912	1,568	69,798
Infrastructure	<u>311,224</u>	<u>297,496</u>		<u>608,720</u>
 TOTAL ALLOWANCES FOR DEPRECIATION	 <u>\$ 5,437,415</u>	 <u>\$ 651,717</u>	 <u>\$ 486,015</u>	 <u>\$ 5,603,117</u>
 NET CARRYING AMOUNT	 <u>\$ 7,217,283</u>	 <u>\$ 777,881</u>	 <u>\$ 0</u>	 <u>\$ 7,995,164</u>

Depreciation expense is charged to expense categories based on the usage of equipment for each of the categories. The Commission also records depreciation expense and a corresponding revenue of equal amount to facilitate in charging allocable amounts of depreciation to the proper categories.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### NOTE F - RETIREMENT SYSTEM

The Gogebic County Road Commission participates in the Gogebic County Employee Retirement System, a defined benefit pension plan administered by Gogebic County. The plan covers substantially all of its employees and its assets may be used only for the payment of benefits to the members of that plan, in accordance with the terms of the plan. Required schedules of funding progress and actuarial valuation information may be found in Note Q - Retirement System of the County's separately issued Audited Financial Statements.

All full-time employees are eligible to participate in the System. Employees who retire at or after age 55 with 30 years of credited service, or age 60 with 8 years of credited service, are entitled to an annual retirement benefit, payable monthly for life, equal to total service years times 2.0% of final average compensation, except for one employee whose monthly benefit uses a 2.25% negotiated rate. Final average compensation is the employee's highest five consecutive years out of the last ten, except for employees with over 30 years of service whose final average compensation is the employee's highest three consecutive years out of the last five.

Benefits fully vest on reaching 8 years of service. The System also provides death and disability benefits. Benefits are established by State statute. Members not fully vested are required to contribute 3% of the first \$4,200 of annual compensation plus 5% of compensation in excess of \$4,200. The Road Commission makes all required payments for fully vested members. Members who were not fully vested contributed \$22,649 to the System during 2006. The Road Commission's contributions to the System for the years ended December 31, 2004, 2005 and 2006, were \$124,686, \$161,100 and \$181,381, respectively, in accordance with the contribution requirements determined by actuarial valuations of the plan.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE G - RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to torts; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission manages its risk by being a member of the Michigan County Road Commission Self-Insurance Pool (MCRCSIP), a public entity risk pool providing general liability, auto, property and crime insurance coverage to its participating members and the County Road Association Self-Insurance Fund (CRASIF), a public entity risk pool providing workers' compensation coverage to its participating members. The Road Commission is sharing risks with other members of the pools and pays an annual premium to each pool for the following coverage:

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
General liability	\$10,500,000	\$1,000
Physical damage:		
Building Ordinance Coverage	1,000,000	500
Property in Transit	50,000	500
At Unnamed Locations	10,000	500
Crime	25,000	1,000
Workers' compensation	Statutory limits	0
Employment Practices and Public		
Officials Errors and Omissions	10,000,000	0

The pools provide this coverage to members by internally assuming risks and reinsuring risks through commercial companies. The MCRCSIP has reinsurance up to \$10,500,000 for each member per occurrence and the CRASIF has reinsurance up to \$10,000,000 and each has the authority to make additional assessments to the members.

The Road Commission's liabilities for its share of losses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities can include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. The Road Commission does not know the incurred but not reported claims, but estimates that the potential unpaid and unreported claims do not exceed the amount of assets in either risk pool available to pay claims.

The Road Commission carries commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### NOTE H - DEFERRED COMPENSATION PLAN

Road Commission employees are eligible to participate in a deferred compensation plan in addition to the normal retirement plan discussed in Note F above. The Plan was created in accordance with Internal Revenue Code Section 457. The Plan is available to substantially all full-time employees and permits employees to defer a portion of their salary until future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the Plan and all income attributable to those amounts, are (until paid or made available to the employee or other beneficiary) to be held in a trust for the exclusive benefit of Plan participants and their beneficiaries.

Investments are managed by the Plan's trustees under one of several investment options, or a combination thereof. The choice of the investment option(s) is made by the participants.

It has been determined that the Road Commission does not have any fiduciary responsibility regarding this Plan and, accordingly, has not reflected any of its assets or activities in its financial statements.

### NOTE I – MICHIGAN PUBLIC ACT 621 OF 1978 DISCLOSURE

Michigan Public Act 621 of 1978 (MCL 141.421), as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended December 31, 2006, the Road Commission incurred expenditures in certain of its budgetary activities which were in excess of the amounts appropriated.

### NOTE J – SINGLE AUDIT ACT

The Road Commission has expended over \$500,000 of federal financial assistance during the year ended December 31, 2006, and is included in Gogebic County, Michigan's county-wide single audit conducted in accordance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. As such, the required reporting is included in the County's separately issued Audited Financial Statements.

### NOTE K – OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note F, the Road Commission pays health insurance costs of certain retirees until the retiree is eligible for Medicare benefits. Currently, the Road Commission has 6 employees who are receiving this benefit. The payments are recorded as current expenditures when paid and amounted to \$91,794 during the year ended December 31, 2006.

REQUIRED  
SUPPLEMENTAL  
INFORMATION

## BUDGETARY COMPARISON SCHEDULE

## GOGEBIC COUNTY ROAD COMMISSION

DECEMBER 31, 2006

	Original Budget	Final Budget	Actual
REVENUES			
Federal aid	\$ 539,000	\$ 548,651	\$ 541,692
State funds	2,791,250	2,842,435	2,791,399
Contributions - local units	255,600	107,287	110,262
Charges for services	922,000	879,016	879,762
Interest and rents	15,001	25,684	26,820
Other			285
Gain on asset disposals		67,759	61,234
TOTAL REVENUES	\$4,522,851	\$4,470,832	\$4,411,454
EXPENDITURES			
Primary roads	\$1,387,500	\$1,449,628	\$1,799,520
Local roads	1,246,451	1,141,957	1,474,912
Services provided:			
State trunkline maintenance	850,000	803,401	780,450
Driveway plowing	60,000	61,625	84,239
Equipment expense - net	(450,000)	(378,113)	257,748
Administrative expense - net	138,900	134,073	263,121
Distributive expenses	1,235,000	1,220,412	
Other			269
Capital outlay - net	55,000	(87,593)	(119,871)
TOTAL EXPENDITURES	\$4,522,851	\$4,345,390	\$4,540,388
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 0	\$ 125,442	\$ (128,934)
Fund balance at January 1, 2006	1,379,307	1,379,307	1,379,307
FUND BALANCE AT DECEMBER 31, 2006	\$1,379,307	\$1,504,749	\$1,250,373

The accompanying notes are an integral part of the financial statements.

OTHER  
FINANCIAL  
INFORMATION

# ANALYSIS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

## GOGEBIC COUNTY ROAD COMMISSION

Year ended December 31, 2006

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Total revenues	\$2,334,642	\$1,287,339	\$ 789,473	\$4,411,454
Total expenditures	<u>2,090,998</u>	<u>1,563,060</u>	<u>886,330</u>	<u>4,540,388</u>
Excess (deficiency) of revenues over expenditures	\$ 243,644	\$ (275,721)	\$ (96,857)	\$ (128,934)
Other financing source (use) - optional transfers	<u>(275,721)</u>	<u>275,721</u>	<u>          </u>	<u>          </u>
Excess (deficiency) of revenues and other financing source over expenditures and other financing use	\$ (32,077)	\$ 0	\$ (96,857)	\$ (128,934)
Fund balance at January 1, 2006	<u>658,877</u>	<u>516,407</u>	<u>204,023</u>	<u>1,379,307</u>
FUND BALANCE AT DECEMBER 31, 2006	<u>\$ 626,800</u>	<u>\$ 516,407</u>	<u>\$ 107,166</u>	<u>\$1,250,373</u>

The accompanying notes are an integral part of the  
financial statements.

ANALYSIS OF REVENUES  
GOGEBIC COUNTY ROAD COMMISSION  
Year ended December 31, 2006

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Federal Aid:				
Surface Transportation funds	\$ 322,668			\$ 322,668
Federal "D" funds	148,064			148,064
Hazards Elimination funds		\$ 70,960		70,960
	\$ 470,732	\$ 70,960		\$ 541,692
State Aid:				
Michigan Transportation Fund:				
Engineering	\$ 7,000	\$ 3,000		\$ 10,000
Allocation	1,499,923	660,068		2,159,991
Urban road	35,578	6,966		42,544
Snow removal	113,378	170,067		283,445
	\$1,655,879	\$ 840,101		\$2,495,980
Economic Development Fund:				
State "D" funds	\$ 69,097			\$ 69,097
Forest Road funds	138,934	\$ 87,388		226,322
	\$ 208,031	\$ 87,388		\$ 295,419
	\$1,863,910	\$ 927,489		\$2,791,399
County raised and other revenues:				
Contributions from:				
Cities		\$ 5,471		\$ 5,471
Townships		104,791		104,791
Charges for services:				
State trunkline maintenance			\$ 727,514	727,514
State trunkline nonmaintenance			52,901	52,901
Private driveway plowing		84,239		84,239
Other		15,108		15,108
Interest and dividends earned		26,820		26,820
Other		285		285
Gain on asset disposals		52,176	9,058	61,234
		\$ 288,890	\$ 789,473	\$1,078,363
TOTAL REVENUES	\$2,334,642	\$1,287,339	\$ 789,473	\$4,411,454

The accompanying notes are an integral part of the financial statements.

ANALYSIS OF EXPENDITURES  
GOGEBIC COUNTY ROAD COMMISSION

Year ended December 31, 2006

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Primary road:				
Preservation - structural improvements	\$ 802,539			\$ 802,539
Maintenance	974,271			974,271
Primary road structures:				
Preservation - structural improvements	937			937
Maintenance	<u>21,773</u>			<u>21,773</u>
	\$ 1,799,520			\$ 1,799,520
Local road:				
Preservation - structural improvements		\$ 392,709		\$ 392,709
Maintenance		1,046,098		1,046,098
Local road structures:				
Preservation - structural improvements		344		344
Maintenance		<u>35,761</u>		<u>35,761</u>
		\$ 1,474,912		\$ 1,474,912
Services provided:				
State trunkline maintenance			\$ 727,548	\$ 727,548
State trunkline nonmaintenance			52,902	52,902
Private driveway plowing			<u>84,239</u>	<u>84,239</u>
			\$ 864,689	\$ 864,689
Equipment expense - net	81,732	102,249	73,767	257,748
Administrative expenses - net	144,603	118,518		263,121
Other			269	269
Capital outlay - net	<u>65,143</u>	<u>(132,619)</u>	<u>(52,395)</u>	<u>(119,871)</u>
TOTAL EXPENDITURES	<u>\$ 2,090,998</u>	<u>\$ 1,563,060</u>	<u>\$ 886,330</u>	<u>\$ 4,540,388</u>

The accompanying notes are an integral part of the financial statements.

SUPPLEMENTAL  
REPORT

**JOKI, MAKELA & POLLACK, P.L.L.C.**

CERTIFIED PUBLIC ACCOUNTANTS  
301 N. SUFFOLK STREET  
IRONWOOD, MICHIGAN 49938-2027

T. J. MAKELA, C.P.A.  
W. J. JOKI, C.P.A.  
A. R. POLLACK, C.P.A., C.S.E.P.  
MEMBERS

TELEPHONE  
906-932-4430  
FAX  
906-932-0677  
EMAIL  
jmp@ironwoodcpa.com

REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Board of Commissioners  
Gogebic County Road Commission  
Bessemer, Michigan

We have audited the accompanying financial statements of the governmental activities of Gogebic County Road Commission, a component unit of Gogebic County, Michigan, as of and for the year ended December 31, 2006, which collectively comprise the Gogebic County Road Commission's basic financial statements, and have issued our report thereon dated July 17, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gogebic County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose or expressing an opinion on the effectiveness of the Gogebic County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Gogebic County Road Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Gogebic County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Gogebic County Road Commission's financial statements that is more than inconsequential will not be prevented

or detected by the Gogebic County Road Commission's internal control. We consider the deficiency described below as item 06-1 to be a significant deficiency in internal control over financial reporting.

#### 06-1 Michigan Public Act 621 of 1978

Michigan Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended December 31, 2006, the Road Commission incurred expenditures in certain of its budgetary activities which were in excess of amounts appropriated.

We recommend that the Road Commission review the requirements of Michigan Public Act 621 of 1978, amend its budget in accordance therewith in the future and require conformity to the Act. Road Commission management agrees and will take necessary steps to comply with the Act in the future.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Gogebic County Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gogebic County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Gogebic County Road Commission's response to the finding identified in our audit is described above. We did not audit Gogebic County Road Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of the Board, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Toki, Makela & Pollack, PLLC*

Certified Public Accountants

Ironwood, Michigan  
July 17, 2007